Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Schiff	Analyst:	Kristina North	Bill Number:	SB 1453
Related Bills:	None	Telephone:	845-6978	Introduced Date:	February 8, 2000
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: College Tuition Deduction

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would allow a deduction equal to up to $10,000 for college tuition costs paid or incurred by the taxpayer for the taxpayer or the taxpayer's dependent.

EFFECTIVE/OPERATIVE DATE

This bill would become effective immediately upon enactment and would apply to taxable years beginning on or after January 1, 2000.

SPECIFIC FINDINGS

Current state and federal laws do not allow a tax deduction for such personal expenses as payment of a taxpayer's or taxpayer's dependent's college tuition expenses, except where specifically authorized. For example, if education undertaken maintains or improves a skill required as a condition of employment, an individual may deduct the attributable expenses. Expenses for the production of income and certain employee business expenses are considered miscellaneous itemized deductions and must exceed 2% of adjusted gross income (AGI).

Current federal and state laws provide for various tax credits designed to provide tax relief for taxpayers who must incur expenses or to influence business practices and decisions.

Current federal law allows two credits related to students pursuing college or graduate degrees or vocational training. The Hope Scholarship Credit provides a credit for 100% of qualified tuition and related expenses for a maximum allowable credit of $1,500 per student for each of the first two years of post-secondary education. The Lifetime Learning Credit allows a credit of 20% of qualified tuition and related expenses (up to $5,000 for taxable years beginning before January 1, 2003, and $10,000, thereafter) paid by the taxpayer for any year the Hope Scholarship Credit is not claimed.

Current state law defines “dependent” by reference to federal law. To qualify as a dependent, the person must be a member of the taxpayer’s household or a relative, an American citizen, or a resident of Canada or Mexico. A “dependent” is further defined as a person who does not file a joint return and who does not have gross income of $2,700 or more. Additionally, the taxpayer must provide more than half of the dependent’s total support. There are specific exceptions to most of these qualifications.

Board Position:			Department Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Alan Hunter for GHG	3/30/00
____ N	____ OUA	__X__ PENDING		

For taxable years beginning on or after January 1, 2000, **this bill** would allow a deduction to a taxpayer of up to $10,000 per taxable year for an amount paid or incurred for the college tuition costs of the taxpayer or the taxpayer's dependent. The deduction allowed under this bill would be allowed as a miscellaneous itemized deduction and deductible only to the extent that it exceeds 2% of the taxpayer's AGI.

Policy Considerations

Noncustodial parents who paid a significant portion of their child's college tuition could be ineligible for this deduction.

Since this bill does not require the taxpayer or dependent to be studying at a college or university located in California, the deduction could be claimed regardless of where the taxpayer or dependent was attending school.

Implementation Considerations

Definitions are needed for "tuition costs" and "college."

Clarification is needed to determine if the $10,000 maximum:

- ☐ would apply per deduction for each taxpayer (i.e., husband and wife).
- ☐ would apply to each of an unlimited number of dependents.
- ☐ would be an annual maximum aggregate limitation.

FISCAL IMPACT

Departmental Costs

With the resolution of the implementation considerations, it is anticipated that this bill should not significantly impact this department.

Tax Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Estimated Revenue Impact Taxable/Income Years Beginning After December 31, 1999 Enactment Assumed After June 30, 2000 Fiscal Years (In Millions)		
2000/2001	2001/2002	2002/2003
-$249	-$224	-$231

It is assumed that taxpayers with more than one dependent in college would be allowed a deduction for each dependent. It is assumed that estimated revenue losses would increase in later years when students receiving some sort of financial aid and who do not have enough income to claim the deduction when incurred, begin paying back loans for their postsecondary education.

Also, this analysis assumes that the intent is not to allow this deduction for student debt payments for postsecondary education received prior to January 1, 2001.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The revenue impact of this bill depends on how the term "tuition" is defined. Based on discussions with the author's staff, for purposes of this proposal, tuition is defined as any tuition or fees required for the enrollment or attendance of a taxpayer or a taxpayer's dependent, who is a resident of California, at a postsecondary educational institution. This definition of "tuition" was used in the development of this revenue estimate.

Information was obtained from various sources, including the California Postsecondary Education Commission, the California State University and University of California systems, the Association of Independent California Colleges and Universities, the California Department of Education, and the Accrediting Council for Independent Colleges and Schools.

The revenue impact was determined in the following manner. The number of resident students attending different types of colleges, i.e., postsecondary institutions, was identified and a 3% growth rate was applied to all enrollments based on prior year data. Postsecondary educational institutions include community colleges, California State Universities, University of California colleges, private universities, and private career colleges. Also, a 2.5% incentive effect was added to the enrollment numbers. The percentages of full-time, independent, dependent full-time, dependent part-time, and part-time independent students per institution type were identified and used as one factor in determining the average income levels available to offset the proposed income deduction, i.e., the usage rates. Due to similar characteristics, the student classifications, other than full-time independent students, were aggregated for purposes of determining usage rates for each institution classification. For example, it was projected that the parents of full-time dependent students would have more income and be able to apply a greater percentage of the proposed deduction than would full-time independent students. The income levels associated with students and parents in relation to the type of institution attended were also considered in the determination of the usage rates. The average marginal tax rate used was 7.5%.

The projected taxable year 2000 revenue loss of over $216 million was computed as shown in the following summary tables. The 2000/2001 fiscal year estimate includes this impact plus 15% of the 2001 liability year impact. The latter allows for reduced estimated tax payments by some taxpayers over the first half of 2001.

BOARD POSITION

Pending.